

FISCAL NOTE

Bill #: HB0249

Title: Economic development trust fund

Primary Sponsor: Lindeen, M

Status: As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
Expenditures:		
State Special Revenue	\$1,338,000	\$1,581,000
Coal Severance Tax Permanent Fund	(\$20,000,000)	\$0
Big Sky Economic Development Fund	\$20,000,000	\$0
Revenue:		
General Fund	(\$1,338,000)	(\$1,581,000)
State Special Revenue	\$1,338,000	\$1,581,000
Net Impact on General Fund Balance:	(\$1,338,000)	(\$1,581,000)

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|--|--|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. This bill would establish a new subfund within the coal severance tax trust fund named the Big Sky Economic Development Fund. On July 1, 2005, \$20 million would be transferred from the coal tax permanent fund to the Big Sky Economic Development Fund.
2. Under current law, 12.5 percent of coal severance tax revenue is deposited in the coal tax permanent fund. This bill would allocate that 12.5 per cent of coal severance tax revenue to the new Big Sky Economic Development Fund and eliminate that allocation to the permanent fund.
3. Coal severance tax collections are projected to be \$31.602 million in FY 2006 and \$32.268 million in FY 2007. This bill would result in \$3.950 million (12.5% x \$31.602 million) of coal severance tax being deposited in the Big Sky Economic Development Fund in FY 2006 and \$4.034 million (12.5% x \$32.268 million) being deposited in FY 2007. Under current law, these funds would have been deposited in the permanent fund.
4. Coal severance tax is paid quarterly. If four equal deposits are made into a trust fund, one at the end of each quarter, the average balance for the year is the beginning balance plus three-eighths of the deposits.

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(Weighting the fraction of the total deposited at the end of each quarter by the fraction of the year remaining when it is deposited gives $(\frac{1}{4} \times \frac{3}{4} + \frac{1}{4} \times \frac{1}{2} + \frac{1}{4} \times \frac{1}{4} + \frac{1}{4} \times 0) = \frac{3}{8}$).

5. The average balance in the Big Sky Economic Development Fund would be \$21.481 million (\$20 million + $\frac{3}{8} \times \$3.950$ million) in FY 2006 and \$25.463 million (\$20 million + \$3.950 million + $\frac{3}{8} \times \$0.034$ million) in FY 2007. The average balance in the permanent fund would be reduced by the same amount.
6. The Board of Investments would establish the Big Sky Economic Development Fund by transferring \$20 million of shares in the Trust Funds Bond Pool from the permanent fund, and revenue deposited in the Big Sky Economic Development Fund would be placed in the Trust Funds Bond Pool. The Trust Funds Bond Pool is expected to pay 6.23 percent in FY 2006 and 6.21 percent FY 2007.
7. In FY 2006, the Big Sky Economic Development Fund would pay interest of \$1.338 million ($6.23\% \times \21.481 million) into a new economic development special revenue account. Interest from the permanent fund paid to the general fund would be reduced by the same amount. In FY 2007, the Big Sky Economic Development Fund would pay interest of \$1.581 million ($6.21\% \times \25.463 million) and interest to the general fund would be reduced by the same amount.
8. The \$20 million of Permanent Coal Tax Trust funds to be transferred is currently invested in the Trust Funds Bond Pool (TFBP), which serves as a mutual fund type investment for the state's major long-term trust funds. The Permanent Coal Tax Trust holdings of TFBP shares that are not allocated to a sub fund will be reduced by \$20 million beginning in FY 2006. Interest earnings on the Permanent Coal Tax Trust not allocated to designated sub fund programs are currently deposited in the general fund.
9. The department must adopt rules to implement the program including the distribution methods for financial assistance to local governments and certified regional development corporations. The rules, as they pertain to local governments must provide for maximum financial assistance of \$5,000 for each expected job to be created and a minimum of five jobs to qualify for funding. The department assumes it will adopt rules defining the number of hours of work necessary to qualify as a full-time job.
10. The jobs to be created must pay at least the lesser of Montana's current average weekly wage, the average weekly wage of the county where the project will exist, or, in the case of a reservation, the average weekly wage of that reservation.
11. Interest generated from the Big Sky Economic Development Fund will be transferred by the state treasurer on a monthly basis to a state special revenue account established in Section 6 of the bill. That money is statutorily appropriated to the Department of Commerce and, after the cost of administration, 75 per cent of the money must be used for grants and loans to local governments for job creation projects. Certified Regional Development Corporations will receive grants of 25 per cent of the money for the purposes enumerated in Section 5.
12. The Department of Commerce, Business Resources Division would require 1.00 professional level FTE (pay band 6) to support the new program at an estimated cost of \$45,554 in FY 2006 and \$45,429 in FY 2007. Operating costs are estimated to be \$50,000 each fiscal year. In FY 2006 it is assumed grants and loans to local governments for job creation projects would be \$931,835; and grants to Certified Regional Development Corporations would be \$310,612. In FY 2007 it is assumed grants and loans to local governments for job creation projects would be \$1,114,183; and grants to Certified Regional Development Corporations would be \$371,394.

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FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Transfers</u>		
Coal Severance Tax Permanent Fund	(\$20,000,000)	\$0
Big Sky Economic Development Fund	\$20,000,000	\$0
<u>Expenditures:</u>		
Personal Services	\$45,554	\$45,429
Operating Expenses	\$50,000	\$50,000
Grants	<u>\$1,242,446</u>	<u>\$1,485,577</u>
TOTAL	\$1,338,000	\$1,581,000
<u>Funding of Expenditures:</u>		
State Special Revenue (02)	\$1,338,000	\$1,581,000
<u>Revenues:</u>		
General Fund (01)	(\$1,338,000)	(\$1,581,000)
State Special Revenue (02)	\$1,338,000	\$1,581,000
Trust Funds (09)		
Coal Severance Tax Permanent Fund	(\$3,950,000)	(\$4,034,000)
Big Sky Economic Development Fund	\$3,950,000	\$4,034,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01))	(\$1,338,000)	(\$1,581,000)
Coal Severance Tax Permanent Fund	(\$20,000,000)	\$0
Big Sky Economic Development Fund	\$20,000,000	\$0

TECHNICAL NOTES:

1. Page 2, line 4 should be changed to read “subsections (3) through (6)” rather than “subsections (3) through (5).”
2. It is suggested that the legislation clarify that Big Sky Economic Development funding may not be used to help relocate a Montana company from one Montana local government jurisdiction to another Montana local government jurisdiction unless both local governments formally agree that it is in their best interest to do so.
3. There is not a ready source of information for average weekly wage on Montana reservations.